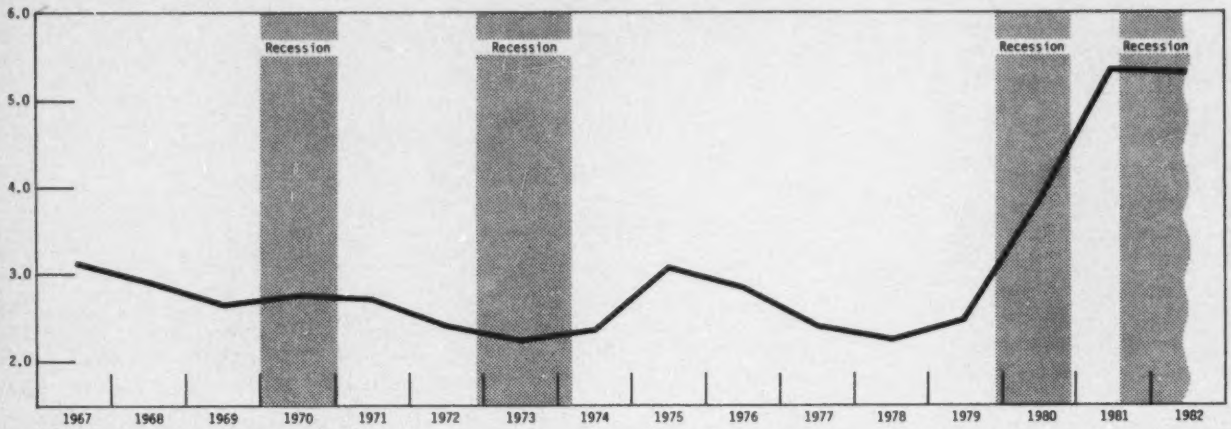
FinanceFacts

A Monthly Publication on Consumer Financial Behavior DECEMBER 1982

Number of Bankruptcy Filings Per One Thousand Households, Total U.S., 1967-1982



National Consumer Finance Association Chart.
Source: Administrative Office of the United States Courts, Bureau of the Census.

The October decline in consumer installment credit outstanding reported this week by the Federal Reserve Board (see page 2) raises the inevitable question whether consumers' credit behavior in this business cycle is different from behavior witnessed in previous cycles. Typically, observers of consumer credit markets divide this question into three parts: 1) whether installment credit growth follows familiar cyclical patterns, 2) whether changes in the consumer sector's overall financial condition fall within previously experienced ranges, and 3) whether specific measures of individuals' financial stress, such as numbers of account delinquencies and bankruptcies, are consistent with prior experience.

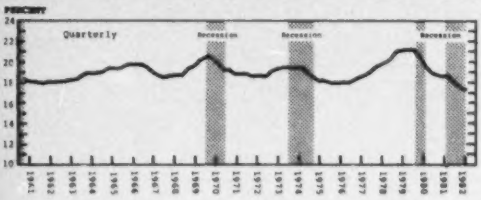
Taking these questions in order, a sharp decline in the growth of consumer installment credit outstanding is a familiar pattern for the last months of a recession. In fact, in three of the last four recessions (1960-1, 1973-5, and 1980) consumer credit growth briefly turned negative, even in nominal dollar terms, as it did in October, 1982. Interestingly, in all four of the most recent recessions the low point in consumer credit growth occurred right at or slightly after the trough in aggregate economic activity. Thus, negative consumer credit growth is not only a familiar pattern; it is another sign that the recession is bottoming out.

Second, as has been discussed extensively in Finance Facts this year (see January through April issues and updates of January and April charts on page 2 of this issue), the consumer sector's short term financial picture has followed a familiar pattern in this cycle. Measures of debt burden, either consumer installment credit outstanding in relation to liquid assets or installment debt repayments in relation to disposable personal income, tend to peak before or near the start of a recession

(text continued on last page)

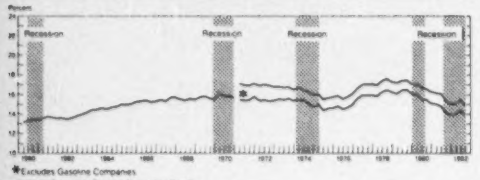
Published by the National Consumer Finance Association, 1101 Fourteenth Street, N.W., Washington, D.C. 20005 (202) 289-0400

Ratio of Consumer Installment Credit Outstanding to Consumer Sector's Liquid Assets



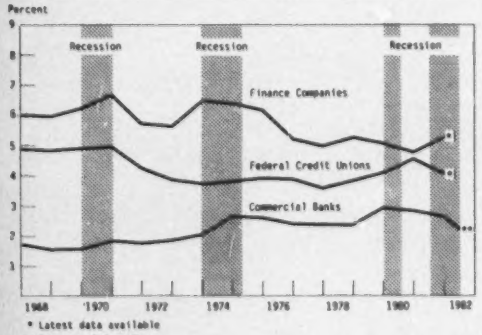
National Consumer Finance Association Chart. Source: Federal Reserve Board

Ratio of Repayments of Consumer Installment Credit to Disposable Personal Income



*Excludes Gasoline Companies
National Consumer Finance Association Chart
Source: Federal Reserve Board and Department of Commerce

Number of Loans Delinquent as a Percent of Total Number of Loans Outstanding, Year-end



* Latest data available
** Data as of June 30.
National Consumer Finance Association Chart.
Source: MCFA, National Credit Union Administration, American Bankers Association.

CONSUMERS' FINANCIAL POSITION

Personal saving as a percent of disposable personal income was 7% in the third quarter, up from 6.5% a year earlier. Commonly employed measures of consumers' "debt burden" remain at particularly low levels. Installment credit outstanding was just over 17% of consumers' liquid assets in the second quarter and repayments relative to disposable income fell below 15% in the third quarter, the most recent quarterly measures available. Both installment credit debt burden measures are at their lowest levels in twenty years.

CONSUMER INSTALLMENT CREDIT

In October, consumer installment credit outstanding amounted to $335.0 billion before seasonal adjustment. A year earlier, this figure was $328.7 billion. On a seasonally adjusted basis, consumer installment credit contracted by $324 million in October 1982, the first monthly decline since December 1981. The largest decline occurred in the "other" category (personal loans, home improvement and other consumer goods credit falling $350 million), followed by automobile credit (down $78 million) and mobile home credit (down $4 million). Revolving credit increased a seasonally adjusted $108 million. Total consumer installment credit outstanding declined at a 1.2% annual rate in October compared with a 4% increase in September and a 2% increase for the third quarter. Finance companies showed the largest decline, down $393 million seasonally adjusted, and savings and loans the largest increase, $328 million, seasonally adjusted, in October.

LEADING INDICATORS

The composite index of leading indicators increased 0.2% in October to a level of 131.4 (1967=100), based on preliminary data. This index increased 1.1% in September based on more complete data. The preliminary estimate for September was an increase of 0.5%. The leading indicators are now 2.4% above a year earlier and 5.0% above the recent low in March 1982. Of the ten indicators available for October, five increased, four declined and one was unchanged. Stock prices contributed the greatest increase and change in total liquid assets contributed the greatest decline. Average workweek was unchanged.

Gregory D. Luetscher

CONSUMER SECTOR INDICATORS

	1980 IV	1981 III	1981 IV	1982 I	1982 II	1982 III
EMPLOYMENT, INCOME, AND SPENDING						
Employment - Household Survey 1/	99,498	100,654	100,043	99,554	99,740	99,764
Disposable Personal Income 2/	$ 1,902.9	2,060.0	2,101.4	2,117.1	2,154.5	2,202.3
Personal Consumption Expenditure 2/	$ 1,745.8	1,868.8	1,884.5	1,919.4	1,945.8	1,989.5
Personal Saving 2/	$ 105.3	134.4	158.6	139.1	149.4	153.0
CONSUMER INSTALLMENT CREDIT						
Total Outstanding 3/	$ 309.1	326.5	327.9	330.0	333.5	334.0
Percent Change	1.2	1.6	0.4	0.6	1.1	0.2
Ratio to Consumers' Liquid Assets (%)	18.8	18.3	17.8	17.5	17.3	--
Ratio: Repayments to Disposable Personal Income (%)	16.3	15.4	15.1	15.1	15.6	14.8
Market Share (%)						
Commercial Banks	46.9	44.8	44.8	44.8	44.2	44.0
Finance Companies	24.5	27.0	26.9	27.4	27.8	27.7
Credit Unions	14.1	14.3	13.8	14.0	13.8	13.9

1/ Thousands, seasonally adjusted quarterly average
2/ Billions, seasonally adjusted annual rate
3/ Billions, seasonally adjusted

Source: Federal Reserve Board, Bureau of Labor Statistics, U.S. Department of Commerce, NCFA.

The above data are updates and revisions to data last presented in the September 1982 issue of Finance Facts. Estimates are revised periodically by the statistical agencies to incorporate methodological changes and new source data.

(text continued from first page)

and then to decline through the recession and for a while afterward. In the 1981-2 recession the interesting fact is not that the pattern is any different, but that the debt burden decline began from an already low burden level following the 1980 recession only a short while earlier. As a result, commonly used debt burden measures in 1982 reached low levels not seen in two decades.

Third, available information on trends in specific measures of individuals' financial stress are also within the range of prior experience -- with the exception of personal bankruptcies. Like the burden ratios, graphs of the percentage of consumer credit accounts delinquent at banks, finance companies, and credit unions are flat and generally trendless over a long period (see page 2). They do show some cyclicality, tending to rise during recessions and falling afterward during subsequent recoveries. Before 1979 personal bankruptcies per 1000 households exhibited the same trendless pattern until bankruptcies shot up like an arrow beginning late that year (see chart on page 1). In looking for an explanation for this divergence between bankruptcies and the other measures of consumers' recent credit experience two extraneous developments in the bankruptcy area come to mind: the advent in lawyer advertising and changes in the Federal Bankruptcy Code in October 1979 that lowered the real cost of declaring personal bankruptcy. The point is that with the special exception of bankruptcies 1979-81, available measures of consumers' financial stress in the recent past follow typical cyclical patterns.

In sum, although negative consumer credit growth, a cyclical downturn in debt burden, and a cyclical upturn in credit delinquencies all have implications for the course of the economy, recent changes in these measures are startling only when viewed outside of their historical contexts. Currently available measures of credit growth, debt burden, and credit stress are within historical ranges and are consistent with prior cyclical experience. The one exception is personal bankruptcies where understanding the sharp recent uptrend requires knowledge of exogenous legal developments.

Thomas A. Durkin